MONTANA MONEY SCHOOL
State Auditor John Morrison

# Planning for Retirement

## The Mature Investor

It's never too early to start planning and saving for retirement. As you begin to plan for retirement, you should visualize your retirement funds as a three-legged stool: one represents your Social Security retirement benefits, the second is your employer pension and the third leg is your individual savings and investment earnings. If you have two, rather than three sources of retirement funding, those two will have to be stronger to support you.

The 2002 Retirement Confidence Survey reports 70 percent of people say they are confident they'll have enough money to live comfortably in retirement, but only 53 percent of workers surveyed have tried to determine how much they'll need to save for a comfortable retirement. Often times, the confidence rate and savings rate don't match, because many Americans have saved only modest amounts for retirement and many underestimate what they likely will need to support themselves. Many financial experts estimate that retirees will need at least 70 to 80 percent of their pre-retirement income to maintain their current lifestyles.

At one time, people could expect to live comfortably after retirement on income from traditional savings accounts. But a decline in interest rates and other factors have prompted many people to turn to investments as a way to keep their income from falling behind the rate of inflation. An increasing share of investors near or at retirement age are taking on ever-increasing investment risks. Gone are the days when most retired Americans could rely on Social Security, pension payments and interest on federally insured savings to pay the bills.

Three out of four Americans over age 65 now rely upon investments to help maintain their income and they cannot leave the fate of their retirement nest eggs to chance. Wealth is not a renewable resource for older Americans. The loss of some or all of a retirement nest egg can be an unqualified tragedy. The result may be the loss of a home, total dependency on family or institutions, an inability to meet medical expenses and worse.

There is generally some element of uncertainty in investing when the money at stake represents a lifetime of savings, a lump sum pension payment or a payout of a life insurance policy. Taking undue risk may spell disaster. This money is crucial for retirement and cannot be recaptured. Unfortunately, it is sometimes difficult for investors to know when the risk is too great, or if they are being misled into investing in a product that is unsuitable for their needs.

The following factors have contributed to the increasing role that higher-risk investments play in the retirement picture of older Americans:

- **Aging Population.** Today the typical American reaches age 76. The result is that a growing number of Americans must eke out every possible penny from their retirement savings over an increased number of years.

- **Declining Interest Rates.** To make up the difference, older Americans have sought out investments that have higher returns . . . and greater risks.

- **Decline of Traditional Employer-Paid Pensions.** The decline of the once nearly universal defined benefit pension plan has resulted in a growing emphasis on defined contribution pension plans. An ever-shrinking number of retirees receive regular monthly pension payments until death. Typically, participants in defined contribution plans often receive a lump sum payment upon retirement, forcing a major investment decision upon them that may determine the quality of their financial well being throughout the remainder of their lives.

## The Marketing of Riskier Investments to Older Americans

Many older Americans have potential investment income, not because they are wealthy, but because of a lifetime of saving their hard-earned money. Many with moderate incomes put away a small amount each month to support themselves in retirement. In many cases, these savings reflect years of sacrifice to accumulate income for later years. These people often become prime targets for sales pitches that promise safety and security, but deliver neither.

The massive entry of banks into mutual fund sales has helped coax older investors across the tight rope from insured to uninsured investment products. For older investors who might be intimidated at the prospect of dealing with an unfamiliar brokerage firm, the presence of a familiar bank and 60 years of reliance on the safety net of FDIC protection, offer a perception that the uninsured investments are safe.

## Take Charge of Your Money

Map out your financial goals. Experts can help you decide how to invest your money, but you should have a firm grasp of your short- and long-term goals. You first should determine your own needs and your ability to tolerate risk and then decide what kinds of investments would best meet those goals.

- **Know your investment professional.** Contact the Montana Securities Department at 1-800-332-6148 or (406) 444-2040 to find out if your investment professional is registered and if he or she has a record of state, federal, or self-regulatory disciplinary actions, negative arbitration decisions or civil litigation judgments.

- **Take time to interview two or three investment professionals before choosing one.** Make sure that they understand your needs and wishes and that you feel comfortable with them.

- **Get all information in writing and make sure that you understand it.** A prospectus is long and technical but it can help you determine risks associated with the investment. The research firm Morningstar publishes detailed analyses of investment products. These can be found at the library.

- **Understand your investment.** Take the time to understand the various investment products you may be considering. Focus on the whole range of an investment's characteristics in your decision making, not simply on promises of a high return. You should understand the cost, degree and nature of the risks, investment goals, performance history and any special fees associated with the investment.

- **Understand how your financial professional is being paid.** A fee-only financial planner will charge you a certain amount up front, but does not earn income based upon the recommendations he or she makes to you. Brokers and most financial planners are paid through commissions, which means they get a percentage of the money you invest. A good rule of thumb: The amount of the commission varies by the type of product and the risk associated with the product. In most cases, the higher the risk, the higher the commission. Don't confuse a sales pitch with impartial advice. Do not work with a financial professional who is unwilling to disclose the fees or commissions paid on investment products.

- **Make sure you understand your account statements.** Your account statement should reflect only the pattern of investing you have authorized. If you note a discrepancy, raise the problem immediately with your broker, and, if necessary, the branch manager who supervises the broker. Don't be afraid to ask questions about the meaning of any terms or abbreviations that appear on your account statement. It is your primary tool for monitoring your investments.

- **Keep a diary of all contact and correspondence with your financial professional.** Keep all your account statements. Read and understand all correspondence and account statements. Act immediately if you suspect something is wrong.

- **Never be afraid to ask questions.** You are the person in control of your money. Never sign over discretion of your account to your broker, as his or her idea of a "good trade" may not be in your best interest. You have every right to ask a financial professional why he or she is making a certain recommendation to you, what the alternatives are, what the risks are, and how much he or she will be paid for the transaction. If you are uncertain about a product or what you are being told, ask questions until you understand.

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